Realty Bytes

Key insights and updates on the Indian real estate sector

October 2020

Contents

Foreword

First half of 2020 saw a significant decline in office space absorption, which was the best performing asset class within real estate in the pre-COVID-19 world.

The novel coronavirus (COVID-19) is considered to be the most significant health-related event after the Spanish Flu. As we continue to live in an uncertain environment, the ongoing pandemic has significantly impacted the health of the global as well as Indian economy. The real estate sector, which was already dealing with slowdown, has been adversely affected due to the COVID-19-imposed lockdowns, labour migration and uncertainty around demand for commercial office space. The Reserve Bank of India (RBI) announced multiple measures, including moratorium and restructuring schemes, to provide the much-needed cushion to the real estate sector.

The first half of 2020 saw a significant decline in the office space absorption, which was the best performing asset class within real estate in the pre-COVID-19 world. We also witnessed the successful real-estate investment trust (REIT) listing of Mindspace, indicating all is not lost, and investors will continue to prefer commercial real estate as an asset class. With people working from home (WFH), there is a high expectation that residential sales, which were otherwise not languishing, will witness strong demand.

The sector also saw the adoption and deployment of an increasing number of new-age technologies for operations and marketing, which otherwise would have taken another decade. This will lead to increased efficiency and enable developers to bring the desired level of governance and effectiveness that will overall benefit the sector.

This edition of Realty Bytes covers updates on key recent deals as well as insights on some of the strategic shifts that are likely to happen in the post-COVID-19 world.

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Recent news articles

Reviving real estate - Slashing GST rates is key (August 2020)

Reducing stamp duty and registration rates on real estate will make a major difference and bring back traction to sales. Further, reduction of home loan interest rates and enhancing taxation benefits on repayment of home loans will enhance the positive impact.

The evolution of commercial real estate post COVID-19 (August 2020)

With physical distancing and the need for contactless interactions magnifying the significance of digital, business models backed by robust data and analytics and capable of offering uniquely tailored offerings are reshaping the industry while keeping the competition on its toes.

Amidst COVID-19 pandemic, this Chennai-based real estate firm is building projects worth INR 6,500 crore (August 2020)

Casagrand Utopia at Manapakkam in Chennai is a kids-themed housing project with 673 apartments. It features amenities, such as VR games, 3D rock climbing, learning centres, mini hockey rinks, water slides and smart tuition kiosks, for children.

From selling grocery to tracking health, how this real estate start-up stayed relevant during the lockdown (August 2020)

During the pandemic, society residents' dependence on community apps has increased. When the lockdown was announced, there was paranoia regarding buying groceries and essentials. Within a matter of days, the 'grocery store' feature was made available on the app in partnership with ITC and BigBasket to help residents procure daily essentials.

Affordable housing may recover faster post COVID-19, but challenges remain (August 2020)

Affordable housing is included under RBI's priority sector lending programme. Driven by numerous incentives, the sector witnessed significant growth in supply during 2016 and 2017.

COVID-19 Series: Is the "e-contracting-age" finally here? (August 2020)

There has been a discernible movement towards e-contracting in the recent past, in part due to the challenges posed by COVID-19. Usage and familiarity with electronic documents and filings will help increase the comfort with e contracting.

Government hints at fresh stimulus once COVID-19 cases dip (August 2020)

The government on 25 August 2020 hinted at a fresh set of measures, including a review of GST on two-wheelers and possibly a second stimulus, once COVID-19 subsides amid projections of an extended economic downturn in the wake of the pandemic.

WeWork India provides 15,700 sq. ft office space in Bengaluru to Khaitan & Co (August 2020)

Co-working major WeWork India, which is owned by the Embassy Group, has provided nearly 15,700 sq. ft of office space in Bengaluru to leading law firm Khaitan & Co. The law firm has taken up 300 desks covering an area of 15,697 sq. ft. WeWork caters to these needs while providing the right mix of culture, community and collaboration.

Why NRI investments have increased in the South Indian real estate market? (August 2020)

South India has always been an attractive real estate market for NRIs due to the availability of land at reasonable prices, housing across segments, higher rental yields, on-time completion of projects and good track record of developers.

Is this asset class Indian real estate's next big golden goose? (August 2020)

Over 10 million square feet of brand-new data centres could take form and shape across eight Indian cities, in the next two or three years, a study by Anarock revealed. WFH compulsions, online education, video-based medical consultations, a huge increase in e-commerce and business-related video conferencing and webinars are increasing the demand for data centres.

India's realty sector shows one of the largest improvements globally in transparency index: report (August 2020)

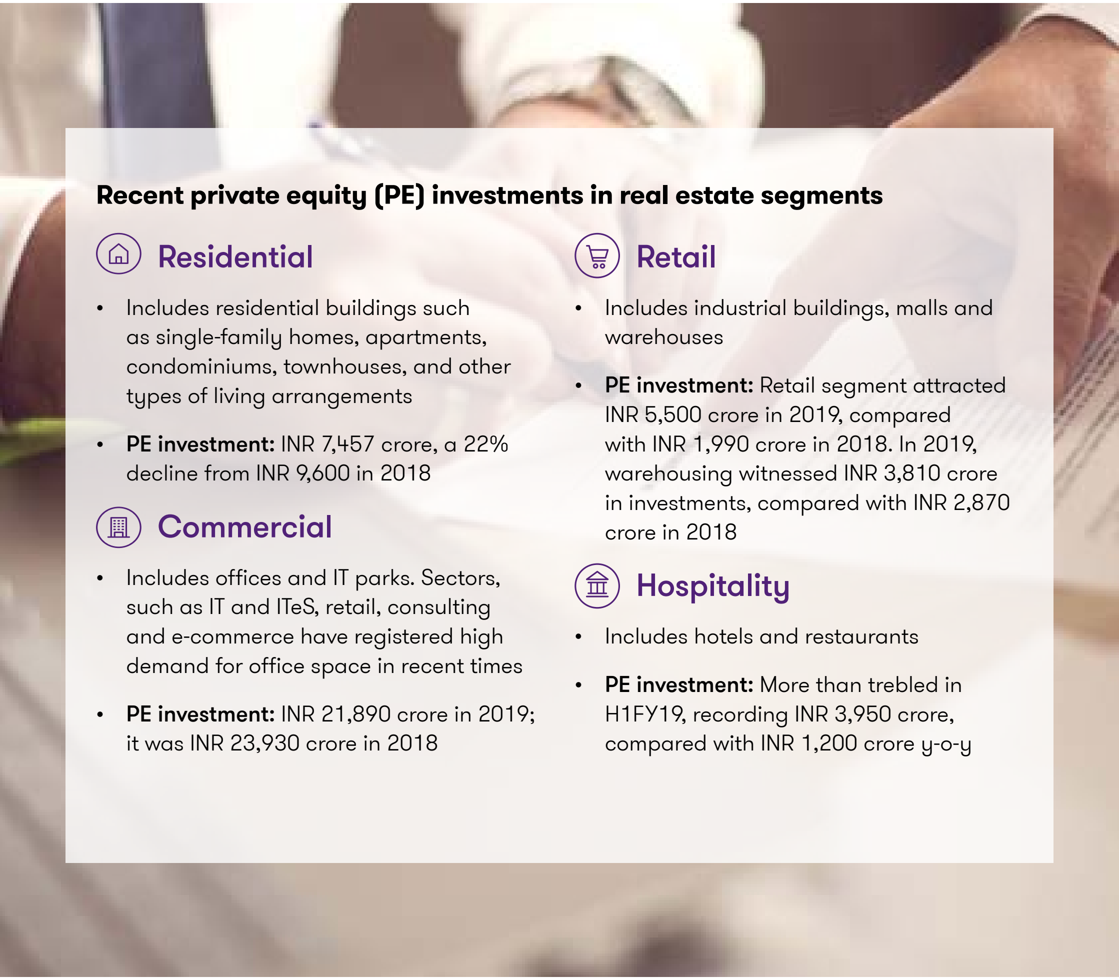
India ranks 34th globally on the Global Real Estate Transparency Index with higher levels of transparency observed due to regulatory reforms, enhanced market data and sustainability initiatives.

Virtual property expos gaining momentum amid COVID-19 pandemic (August 2020)

While video calls, digital meetings, slice views and virtual tours have become norms since the imposition of lockdown in the mid of March, online (virtual) property expos are now increasingly being organized by developers and property consultants to lure customers to their fold.

Sector set for a paradigm shift?

The real estate sector is one of the most globally recognised sectors. It comprises four sub sectors: housing, retail, hospitality and commercial. The growth of the sector is complemented by the growth in the corporate environment and the demand for office space as well as urban and semi-urban accommodations. The construction industry ranks third among the 14 major sectors in terms of direct, indirect and induced effects in all sectors of the economy.



Recent private equity (PE) investments in real estate segments

Residential

- Includes residential buildings such as single-family homes, apartments, condominiums, townhouses, and other types of living arrangements
- **PE investment:** INR 7,457 crore, a 22% decline from INR 9,600 in 2018

Commercial

- Includes offices and IT parks. Sectors, such as IT and ITeS, retail, consulting and e-commerce have registered high demand for office space in recent times
- **PE investment:** INR 21,890 crore in 2019; it was INR 23,930 crore in 2018

Retail

- Includes industrial buildings, malls and warehouses
- **PE investment:** Retail segment attracted INR 5,500 crore in 2019, compared with INR 1,990 crore in 2018. In 2019, warehousing witnessed INR 3,810 crore in investments, compared with INR 2,870 crore in 2018

Hospitality

- Includes hotels and restaurants
- **PE investment:** More than trebled in H1FY19, recording INR 3,950 crore, compared with INR 1,200 crore y-o-y

The sector is also expected to attract more non-resident Indian (NRI) investment, both in the short and long term. Bengaluru is expected to be the most favoured property investment destination for NRIs, followed by Ahmedabad, Pune, Chennai, Goa, Delhi and Dehradun.

The real estate sector, which showed signs of recovery pre-lockdown, is once again staring at long-term challenges related to labour, finance and demand due to the ongoing COVID-19 pandemic. Technology-led innovations are expected to influence the way businesses currently function – whether it is a real estate agent looking to sell homes, a landlord looking for tenants or a prospective homeowner looking for his first house. The synergy between technology and physical interface will continue in the future as well.

Emergence of new real estate segments, led by the new normal

India's data centre capacity is estimated to be close to 480 MVA with revenues of INR 83 billion in FY 2018-19. The size of this industry is expected to double by 2021, driven by data localisation legislations, rising internet usage, increasing use of internet-connected devices and decreasing cost of mobile data/ broadband.

The concept of 'shared economy' is emerging and co-living and co-working are offshoots of this trend. The share of co-working in total office leasing spiked to 15% in H1 2019 from 8% in 2018 and 5% in 2017. The cumulative space take-up by the segment from January 2017 to June 2019 is at a whopping 10.1 million sq. ft. The co-living market in the country is expected to register a compound annual growth rate (CAGR) of 17% over the next five years, to reach ~INR 1 trillion.

The pandemic has brought construction activities to a halt and significantly eroded the market of its potential buyer base. With property transactions dipping to near-zero during the nationwide lockdown, the sector is expected to witness challenging times in the future. The interdependence of supply chains, migration of labour, cost overruns and liquidity constraints are some of the looming challenges.

Key challenges

Delayed infrastructure projects

- Irregular funding is one of the major hurdles for infrastructure developers and it led to delayed projects well before the Real Estate (Regulation and Development) Act, 2016 (RERA).
- In addition to the complications faced while acquire funding for the project, a real estate developer must pass through at least 40 different government regulations before commencing construction.
- The delay in acquiring permissions ranges between a few months to a year and increases the cost of the property by 10-20% for both consumers and developers.
- While RERA has succeeded in combating the issue with transparent usage of finances, the sector calls for a single-window clearance system to streamline and fasten the approval mechanism.

Land availability

- While there is demand for residential and commercial projects across the country, non-availability of land within city limits remains a big challenge. Moreover, steady increase in land prices and construction cost are gradually making projects unviable for developers and homebuyers alike.
- Substantial land parcels are held by the central and state government entities such as railways, defence and port authorities.
- There is a dire need to unlock vacant land parcels through land regulations to overcome shortage and achieve Housing for All by 2022.

Tax and demand shifts

- Before the implementation of goods and services tax (GST), a service tax of 4.5% was applicable on under-construction properties. However, post-GST, the rate has spiked to 12%, stealing the attractiveness of the ordeal for property investors.
- As buyers have been paying registration charges and stamp duty on properties, the inclusion of GST has increased the statutory cost of properties by 20%.

Weak demand for residential units

- Unfavourable tax policies on both rental and ownership housing, liquidity crunch within the housing finance sector (HFC), cumbersome regulatory environment coupled with sudden implementation of demonetisation dampened demand in the sector.

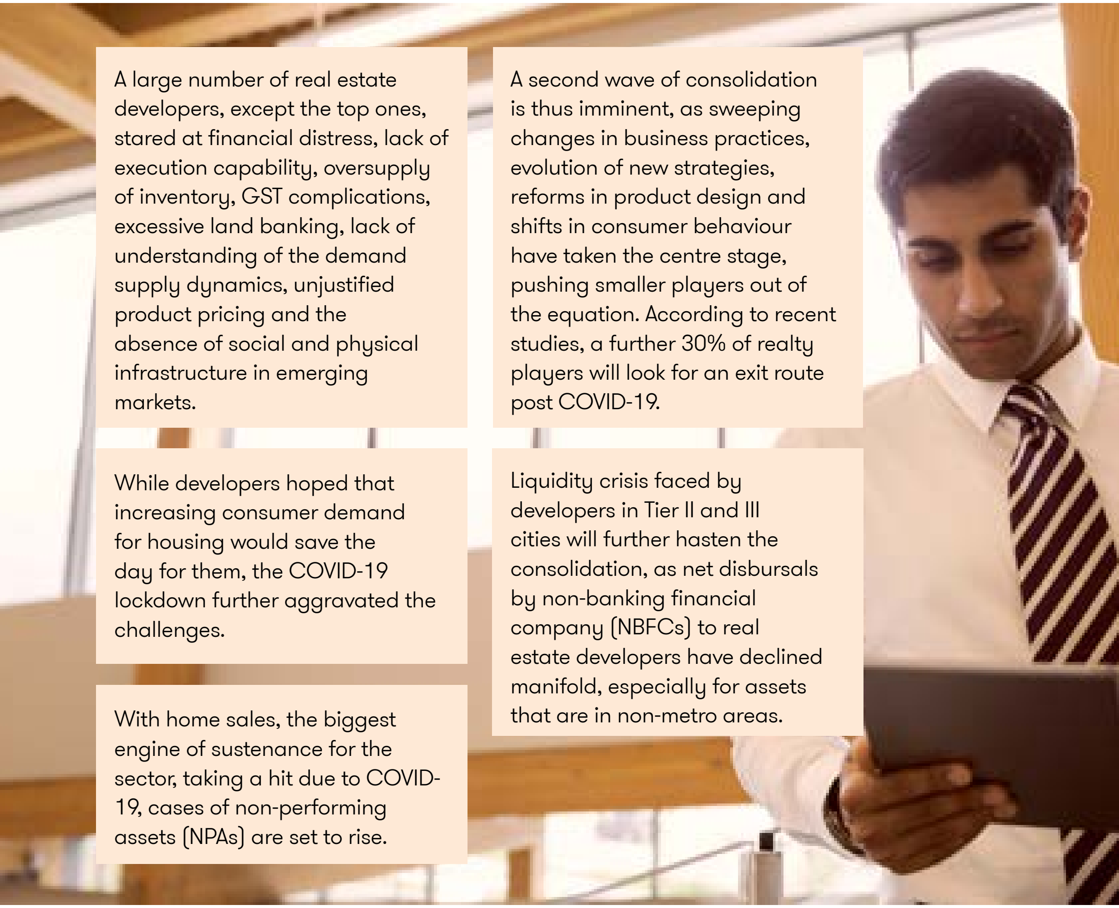
Funding issues

- Lack of access to financing due to the ongoing liquidity crisis in the NBFC and HFC sectors as well as rising share of NPAs on account of developers have restricted access to funds and subsequently led to further stalled projects.

Impact of COVID-19

Deal count hits multi-year low

Due to the pandemic and the subsequent lockdown, several commercial deals across the country have been put on hold and the trend is likely to continue. However, the market is expected to stabilise in the Q4FY20 (end of calendar).



A large number of real estate developers, except the top ones, stared at financial distress, lack of execution capability, oversupply of inventory, GST complications, excessive land banking, lack of understanding of the demand supply dynamics, unjustified product pricing and the absence of social and physical infrastructure in emerging markets.

While developers hoped that increasing consumer demand for housing would save the day for them, the COVID-19 lockdown further aggravated the challenges.

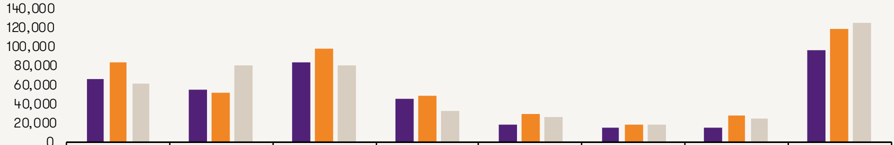
With home sales, the biggest engine of sustenance for the sector, taking a hit due to COVID-19, cases of non-performing assets (NPAs) are set to rise.

A second wave of consolidation is thus imminent, as sweeping changes in business practices, evolution of new strategies, reforms in product design and shifts in consumer behaviour have taken the centre stage, pushing smaller players out of the equation. According to recent studies, a further 30% of realty players will look for an exit route post COVID-19.

Liquidity crisis faced by developers in Tier II and III cities will further hasten the consolidation, as net disbursals by non-banking financial company (NBFCs) to real estate developers have declined manifold, especially for assets that are in non-metro areas.

Revenue trend in recent years of major players

In INR Million



	DLF Limited	Prestige Estates Projects Ltd	NBCC India Ltd	Indiabulls Real Estate Ltd	Brigade Enterprises Ltd	Phoenix Mills Ltd	Godrej Properties Ltd	Lodha Group
2018	67,068	54,986	84,308	45,027	18,972	15,441	16,037	96,918
2019	83,661	51,719	98,652	49,439	29,728	18,864	28,174	119,268
2020	60,828	81,248	80,871	32,708	26,322	19,411	24,414	124,861

Fresh investments witness slump

Restriction on movement of people and ambiguity around the impact of COVID-19 on the economy have led to slowdown in the investment cycle. The Middle East sovereign wealth funds were significantly affected due to sharp fall in crude prices and economic stress are likely to reduce or recall their investment. Moreover, emergence of opportunities in developed economies, on account of drop in valuations due to recession, are expected to negatively impact PE investments in the Indian real estate sector during 2020.

Debt-to-equity ratio of key players

	DLF Limited	Prestige Estates Projects Ltd	Indiabulls Real Estate Ltd	Brigade Enterprises Ltd	Phoenix Mills Ltd	Embassy Group	Godrej Properties Ltd	Lodha Group
2018	0.43	1.49	1.65	1.35	1.11	0.04	3.06	4.35
2019	0.44	1.96	1.24	1.61	0.9	0.13	1.42	5.86
2020	0.18	1.54	0.29	1.6	0.82	0	0.77	3.63

Emerging opportunities due to COVID-19 impact

As economic activities got disrupted following a nationwide lockdown, the fallouts started to emerge in an otherwise buoyant office real estate. The Indian office real estate looked promising in 2019, with a fresh supply of over 50 million sq. ft. and a net absorption that hovered north of 45 million sq. ft, primarily driven by IT/ ITeS, BFSI, consulting and co-working spaces. In upcoming markets, such as Bengaluru, Chennai and Pune, total vacancy was in single digit, further underscoring the robustness of the Indian office real estate.

All these trends are likley to continue, although with some new characteristics and points of focus:

Growth in corporate outsourcing: The ongoing health crisis should accelerate the trend of outsourcing over the long term. Occupiers will increasingly seek third-party real estate services to sustain business continuity. There will be increased demand for new workplace design, including more digital, flexible and health-oriented working solutions.

Rising capital allocations to real estate: The low interest rate environment and financial asset price volatility will support the case for portfolio diversification. Flight to safety in real estate, which continues to offer better relative returns in comparison with other asset classes, is likely to increase.

Increase in urbanisation: The pandemic is unlikely to slow the long-term trend in growing urbanisation but will prompt a rethink in urban design, increasing the imperative to develop truly scalable smart city solutions. This will ensure a greater focus on public health and safety and deliver greater investment in public infrastructure.

Focus on sustainability: There will be an increased spotlight on corporate social responsibility, and through this, greater awareness of the fragility of our society and ecosystem.

Role of technology: Mass adoption of remote-working technology through the pandemic phase will likely increase the pace of Industrial Revolution 4.0, including even more emphasis on robotics, Internet of Things (IoT), big data and unmanned vehicles.

Fast-tracked adoption of technology

The global real estate industry has undergone a tectonic shift in the last decade. India's real estate industry is also experiencing the effects of this global disruption. By 2030, the sector in India is expected to have a market value of USD 1 trillion and it will contribute to 13% of the country's total gross domestic product (GDP) by 2025.

A multitude of factors, such as rapid urbanisation, rise in disposable income and increase in the number of dual-income families, are driving this growth with technology playing a pivotal role. Adoption of advanced technologies, such as artificial intelligence (AI) and machine learning (ML), has opened a whole new realm of opportunities for real estate players.

Stakeholders across the real estate value chain are increasingly using technology to enhance customer experience and build operational efficiencies. Technological advancements are being used across two areas:

PropTech

Includes building online markets for buying and selling or leasing properties and buildings, as well as building technology platforms that facilitate the flexible use of real estate assets in the sharing economy

RealTech

Includes building smart and more responsive structures through control mechanisms and data collection and analysis

PropTech – Helping developers connect with customers more efficiently

Although the rise of PropTech can be traced back to the 1980s, the term recently caught the attention of realtors. Globally, USD 10.3 billion capital has been deployed in PropTech between 2016 and 2018. In the same period, the PropTech segment in India attracted an investment of USD 242 million. PropTech in India has grown exponentially in the last five years, initially with online listings and brokerages then with co-working spaces. Co-living spaces and branded accommodations are now driving the large-scale adoption of PropTech.

PropTech primarily includes digital and technology business platforms, such as online and mobile-based real estate business, and convenience-focused consumer tech enterprises. Driven by increased internet penetration, convenience and enhanced consumer experience for homebuyers, demand for online property listing platforms has increased. PropTech also enables secure data management, resulting in decline of fraudulent practices in the sector. Moreover, due to the current COVID-19 lockdown, potential buyers with disposable income are utilising digital offerings, such as virtual home tours, payment portals and customised data analytics to make buying decisions.

Key technologies

Websites and smartphone apps: Developers are increasingly investing in developing interactive websites and reaching out to consumers through smartphone apps or social media pages. These sources are used to collect data, which is later analysed to deliver accurate predictive models and targeted marketing strategies.

Artificial intelligence: Traditional property search sites rely on simple preferences, such as location and size, to display properties for sale. However, AI enables these sites to recommend properties based on preferences, personality traits and values. Moreover, to build efficiencies across the response processes, site owners are using AI-based chatbots to answer consumer questions quickly and easily.

Virtual and augmented reality: According to a survey by the National Association of Realtors, nearly half of all potential homebuyers search for properties on the internet first. Hence, to increase conversion rates of people visiting properties online, developers are investing in virtual and augmented reality to create virtual tours. These tours allow potential buyers to virtually experience a property as well as help buyers virtually tour properties they cannot visit physically.

Blockchain: As data is increasingly being digitised, particularly regarding property transactions, blockchain offers both buyers and developers additional security against possible fraudulent practices.

Key players

- Currently, there are more than 320 real estate tech start-ups in India.
- It was reported that there are now over 550 PropTech companies operating from Asia, with China, India and Singapore boasting the highest numbers with 144, 170 and 84, respectively.
- Brigade REAP, an India-based PropTech fund, features among the top 40 PropTech funds and accelerators globally
- India-based PropTech start-ups with innovative business models include:

Square Yards: Founded in 2013 and based in Gurugram, it is a tech enabled transaction platform. It owns and operates the real estate aggregation and transaction portal squareyards.com and Square Connect mobile app for property brokers.

Proptiger: Founded in 2011 and based in Gurugram, the company provides online real estate brokerage services in India.

RealtyX: Based in Mumbai and launched by Insomniacs (a digital marketing agency), it is a product aimed at consolidating the referral system in real estate.

Buildsupply: Founded in 2011 and based in Gurugram, it is one of the most advanced ERP systems for real estate. The product aims to provide standardisation, efficiency and transparency to help companies implement cost and time-effective projects, eliminating prospective leakages in the process.

Sell.Do: A sales and marketing automation platform for real estate. It is currently used by more than 200 real estate developers across India to manage their marketing and sales activities.

Cowrks: It offers trendy offices to start-ups, freelancers and enterprises. It has four offerings – virtual office, private space, flexible desks and dedicated desks equipped with technologies such as facial recognition, and behavioural pattern and social interaction analyses.

Smartvizx: Founded in 2015 and based in Noida, Smartvizx is a virtual reality start-up aimed at influencing consumer search, buy and purchase decisions. For instance, one can view how a room would look like in forenoon, afternoon and in the evening sun using the tool.

Recent funding activities

- In February 2020, AI-based PropTech company, Cherre, raised USD 16 million, led by Intel Capital.
- In 2019, Clicbrics, a Gurugram-based tech-based property brokerage platform, raised USD 3 million in a Pre-Series A round.
- In September 2018, Indian PropTech giant Oyo Rooms announced plans to raise USD 1 billion from Japan's SoftBank Vision Fund and other investors.

Industry trends

Increasing adoption of technology in marketing practices: Driven by the need to streamline the highly unstructured real estate market and to make it efficient and transparent, real estate brokers are leveraging technologies, such as big data analytics, virtual and augmented reality and FinTech, to enhance property buying experience of customers.

- Magicbricks is focusing on creating a diversified product portfolio driven by PropTech. Its data team is building innovative solutions around data intelligence, robotic process automation (RPA) and AI-driven solutions. In March 2019, the online platform launched a 'chat' feature on its app enabling interactions between property seekers and advertisers. In November 2016, it established India's first real estate experience centre in Mumbai, using a combination of augmented and virtual reality to allow customers to experience future housing societies.
- In May 2020, Housing.com and No Brokers launched new rent payment features in their mobile apps to enable credit and debit card payments, to support liquidity issues of tenants due to the COVID-19 pandemic.

Increased market consolidation: The industry has been experiencing increased M&A activities and consolidation to drive product innovation and expand market share.

- In February 2020, Square Yards acquired Azuro, a Mumbai-based rental and property management platform to expand its market share in the large rentals and property management sector.[7]
- In December 2019, Magicbricks entered an alliance with digital payments platform Escrowffrr to launch escrow account services for resale transactions for its users, thereby making secondary transactions secure and convenient for users.
- In April 2019, Elara Technologies, owner of Housing, PropTiger and Makaan, acquired FastFox, a Gurugram-based rental brokerage platform, to explore the INR 20,000 crore worth market opportunity in the online-to-offline home rentals space.

Rising investments in PropTech companies: The Indian PropTech segment has seen an investment of USD 242 million (INR 1,82,032 crore) between 2016 and 2018, due to increased adoption of digital technologies by the real estate industry. Further, the sector forecasts large amounts of capital infusions over the next five years.

- In April 2020, NoBroker raised INR 216.13 crore from General Electric in new rounds of funding, raising General Electric's stake in the company to 30.9%. Further, in October 2019, the start-up had raised INR 37,596 crore from various investors including Tiger Global Management.
- In August 2019, Clicbrics, an AI-driven property brokerage platform, raised ~INR 20 crore in a Pre-Series A round to expand its presence in Tier I and II cities.

RealTech – Adding agility to the real estate sector

RealTech, short for real estate technology, refers to technologies that impact the built environment and the real estate sector, either through business model innovation or product innovation[1]. RealTech is based on a foundation of embedding technology into existing structures, effectively changing how a building is imagined, created and operated.

Four primary industry categories

Urban planning
Companies in this vertical are focused on using technology across aspects of urban, rural and community planning. This includes improving processes related to land release, planning approvals, protecting environment and enhancing design of the urban environment.

Search, sales and acquisition
Companies in this category are focused on using technology for searching, marketing and acquiring new and existing residential, commercial and industrial real estate.

Design and construction
Companies in this category are focused on using technology for the design, development and construction of residential, commercial and industrial real estate projects.

Leasing and management
Companies in this category are focused on using technology for leasing and management of residential, commercial, or industrial real estate, from single properties through to solutions designed for complex property portfolios.

Investment update

Global: From 2012 to 2016, VC funding of RealTech companies increased from USD 221 million to USD 2.6 billion, a rise of 1,200%.

Asia Pacific: During 2013-18, the RealTech market attracted investments worth USD 12 billion.

Key players

Foyr: Founded in 2015 and based in Hyderabad, the start-up uses virtual reality and 3-D visualisation to improve the home decor experience. The algorithm it uses enables heavy virtual worlds to be recreated and run seamlessly on all devices including low-powered mobile devices.

Livespace: Launched in 2015, Livespace experiments with AI for interior designing in India.

Ghar360: Launched in 2013, it is a cloud-based 3D augmented reality platform that enables users to design and visualise their potential future home.

Industry trends

Rise in Indian smart home development

- Smart homes are residences that are equipped with information and computing technology devices that anticipate and respond to the requirement of the owner in an effective and efficient manner. Growing need for convenience, availability of advanced technologies (AI and IoT) at reduced prices and remote monitoring options are boosting homebuyers to invest in smart homes. This is resulting in growth of the global smart home market. The Indian smart home market is expected to cross INR 658.41 billion by 2025. To leverage this opportunity, home developers are developing in-house technologies and partnering with tech players to offer smart home options.
  - **Brigade Enterprises:** In February 2020, the company partnered Oakter, a home automation company, to provide smart home solutions. Under this partnership, Oakter will implement its solutions across Brigade Plus Easy Home Packages.
  - **Shriram Properties:** In August 2019, Shriram Properties launched affordable residential project Shriram 107 South East (Bengaluru). Under the project, the company offers smart two BHKs.
  - **Embassy group:** In May 2018, the group partnered with Amazon to foray in smart home segment. Under this partnership, the group has built 800 Alexa-enabled smart homes.

Increase in use of 3D printing and robotics

- 3D printing, also known as additive manufacturing, is used to create three-dimensional shapes by material layering using construction 3D printers, assisted via computer aided design. Benefits, such as quick turnaround, less dependence on manual labour and higher precision, encourage real estate developers to increasingly the use 3D printing to visualise end products.
  - **Apis Cor:** A Russian company has developed a 3D printer that can build a house in just 24 hours. Their machine is 4.5 metres long, 1.5 metres high and wide and can be easily transported on a mobile crane.
  - A team of researchers from the University of Nantes has developed BatiPrint 3D, a printing technology, which allowed the construction of the first social housing in Nantes
  - **Be More 3D:** A Spanish company committed to improvement and implementation of 3D printing technologies in the construction sector.

Sector consolidation likely to increase

The introduction of RERA, insolvency law, benami transaction law, shrinking balance sheet of developers, mounting debts and impact on brand name due to non-delivery of flats or delayed booking are the likely triggers for increasing consolidation and diversification undertaken by developers. Subdued demand and leveraged balance sheets have made it difficult for developers to manage their debt repayment schedules. As a result, developers are declaring bankruptcy, which will further push the cause of consolidation in the real estate sector.

Entry of big corporate houses, such as Tata, Mahindra, Godrej, Piramal and Adani, in the real estate business and default in delivery of apartments to home buyers by realty firms have been major catalysts for this consolidation process. Reputed developers with healthy balance sheets sailed through 2019, while the smaller ones faced extreme financial constraints.

Key trends during consolidation

- Distress sale of land parcels and struggling on-going projects by developers that are cash strapped
- Joint developments or joint ventures between small developers/landowners and large developers/institutional development platforms because smaller developers will need to access to the financing, marketing and compliance-related strengths of the larger players. The development management model will also be used as a strategy to structure partnerships going forward.
- The acquisition of either a portfolio of projects or smaller development companies by larger developers or development platforms.
- Equity investments in Indian real estate projects dried up post 2007-08. The lack of confidence in the regulatory environment coupled with the inability of developers to execute projects on time affected returns. Most funds resorted to investing only via structured debt to curb risks. However, with increased transparency post-RERA, foreign and domestic institutional investors will begin playing a more active role, both at the project and entity level. Further, the sector will see the emergence of development platforms that are backed or owned by institutional investors. These platforms will have the execution and marketing/ sales expertise that will be used to develop projects that the institutional entity invests in. We believe that the speed of consolidation will be determined by the quantum of equity available for investment into real estate by domestic and foreign funds; and the level of success achieved by the newly formed development platforms.

The number of developers in nine major cities – Gurgaon, Noida, Mumbai, Thane, Pune, Bengaluru, Hyderabad, Chennai and Kolkata – has shrunk by 51% to 1,745 in 2017-18 from 3,538 in 2011-12. There has been a massive consolidation with over 50% of the total developers that existed in 2011-12 leaving the market by 2017-18. Further, the number of developers has declined by 70-80% in Gurgaon, Noida and Chennai during the period under review.

- Kolkata, Bengaluru and Hyderabad saw a 60-65% drop in the number of builders operating in the city. The number of developers fell by 48% in Thane, 32% in Mumbai and 19% in Pune.
- Maximum launches in India were witnessed during 2010-13 leading to a situation of high supply and consequent absorption being largely led by investors. This illusion of demand led to more launches and a huge demand-supply mismatch especially in Tier I cities, most specifically in NCR.
- This led to the consolidation of developer numbers across India. Unorganised players have been unable to cope with these mounting market issues, with the final impact of RERA that insists on regulatory compliances.
- COVID-19 and the ensuing lockdown broke the back of the over-leveraged developers who were already in duress. Smaller players, without strong corporate brand value, will find the going tough. Roughly, 30% of realty firms may look for an exit route. The gains for bigger players are not limited to acquisition opportunities. The shakeout and the related supply-side impact may help in keeping prices steady in the face of any uncertainty in consumer demand in the medium term.
- Their loss is gain for cash-rich companies such as Shriram Properties. As leveraged players will be desperate to liquidate assets and square-off debt, big brands will look for acquisition opportunities at a discounted price.
- To sustain, developers not only need to be sufficiently funded, but they will also need to have adequate machinery to meet compliance related formalities that RERA demands. Further, unscrupulous developers, both small and large, will find it hard to operate at the margins that they historically operated at because of the transparency that RERA brings with it.

Overall, the sector is expected to get more institutionalised. The market will be dominated by large developers or institutionally backed development platforms in 3-5 years from now. The number of small developers and landowners trying to foray into developing one-off projects without a strong partner will reduce over time.

Mitigating financial stress

Financial support for the stressed real estate sector

The real estate sector has been stressed for the last couple of years due to low demand and liquidity challenges. The fall of Infrastructure Leasing & Financial Services Limited (ILFS) and consequent liquidity issues for NBFCs choked the much-needed fund support. NBFCs have been the predominant lender in the sector for the last couple of years. The government has shown intend to support the sector with specific schemes since last year. The schemes can be largely classified as regulatory support, direct funding and liquidity support.

Regulatory support: Extension of DCCO for in-progress projects

In February 2020, the RBI came up with the scheme to provide support to under-construction real estate projects by extending time frame under the Date of Commencement of Commercial Operations (DCCO) guideline. Under the revised guideline, a company can take the benefit of an extension of a project timeline for two years, i.e. one year in normal course and additional one year for reasons beyond control of promoters. Such extension can be with consequent shift of loan tenure without treating it as restructuring. Banks and NBFCs can also support by additional funding for cost overrun due to such an extension.

COVID-19-related stress and one-time restructuring scheme: Moratorium and deferment

All lending institutions have been permitted to offer support to stress companies across the sector, including real estate companies. Since March 2020, the government and the RBI have introduced several measures to reduce stress and support companies. Moratorium and deferment of interest on both term loan and working capital were provided from 1 March 2020 until 31 August 2020. All working capital interest for the moratorium period has been permitted to be converted into FITL payable until 31 March 2021. Asset classification standstill has been also provided to all such accounts for the same period.

Direct funding support

Alternative investment fund - SWAMIH Investment Fund I

The government, under its Special Window, set up an alternative investment fund (AIF with targeted corpus of INR 25,000 crore. SWAMIH Investment Fund I with a corpus of INR 12,500 crore and green shoe option of INR 12,500 crore was set up last year. It is amied at completion of construction of affordable and mid-income housing projects, as over 4.5 lakh units are under construction and INR 55,000 crore is stuck in such projects. Life Insurance Corporation of India, State

Bank of India and HDFC Bank are the anchor investors of the fund.

Liquidity support

Special Refinance Facility Scheme (SRF)

In the wake of the COVID-19 pandemic, the RBI has provided a special liquidity facility (SLF) of INR 10,000 crore to the National Housing Bank (NHB) to enable it to infuse liquidity into the housing sector through HFCs, as also other primary lending institutions (PLIs) such as regional rural banks (RRBs), small finance banks (SFBs) and scheduled commercial banks (SCBs).

Credit-linked subsidy scheme (CLSS)

INR 70,000 crore boost to housing sector and middle-income group (INR 6-18 lakh) through CLSS has been provided. Operationalised since 2017, the scheme was earlier until March 2020 and has now been extended until 31 March 2021. This is expected to boost demand in the sector.

Due to COVID-19, consumers are reluctant to physically go to banks for loans. Efforts are on to digitalise the loan disbursement process. Banks are currently working out how digital loans can be disbursed where documents can be signed digitally. States may need to amend some stamp provisions to make this happen.

Resolution and way forward

For companies, which were non-performing assests and under resolution period prior to 1 March 2020 extension of timelines for additional 90 days over 180 days has been permitted for implementation. For companies, which were under review period of 30 days as on 1 March 2020, the moratorium period is to be excluded in the overall period of 210 days.

For companies, which were standard as on 1 March 2020 but in default with overdue not more than 30 days, a one-time restructuring scheme, along with asset classification benefit as standard, has been permitted. Benefit of the scheme can be taken until 31 December 2020, provided such accounts are standard until the date of invocation. The resolution may involve any of the following: additional funding without renegotiation of terms of existing loan, rescheduling, deferment with or without moratorium for a maximum tenure of two years. The resolution is to be implemented within 180 days from date of the invocation.

Changing human capital landscape of the sector

The Indian real estate sector has seen its fair share of changes over the last three years. While the macroeconomic changes have been a mixed bag for the industry, what seems to be consistent are the reforms that are required in the people strategy for the road ahead.

While the liquidity crunch and revenue impact started with demonetisation, the challenges have continued in the GST regime. In addition to the changing regulations, the global fear of recession has not been good for the industry either. The fear of recession has pushed the customer spending towards a more conservative pattern. The industry, which was used to price increase every year, has not seen any significant rise in prices in the last five years. In fact, in some micro-markets, prices have come down due to the slowdown in the sales velocity because of the structural changes discussed earlier.

The middle class is increasingly looking to invest in affordable housing. Reforms and rebates have only reiterated the government's intent to boost this segment and the sharing economy has given the industry new segments to explore. In addition to residential spaces, commercial buildings have seen high demand – thanks to the ever-growing demand for office spaces to accommodate the human capital servicing the world economy, sitting out of India.

It is now apparent that the context of business in the real estate industry is transforming. Given this reality, a few aspects that the real estate businesses are considering are - reducing risk by updating and aligning the internal systems and processes with the new regulations, and improving profitability by increasing internal productivity.

How can real estate organisations can align their people strategy with the changing business paradigm

Take stock

A good place to start is to take stock of the as-is. How do companies currently drive performance and productivity? Understanding the underlying culture of performance and rewards is a must. While a few tenets of culture may be available through formal documentation, it wouldn't be a surprise if practices in promoter-driven organisations drive most of it.

Articulate vision

The next step is to map where companies want to be. What is it that companies are trying to achieve through people? How can companies best align the people strategy to the changing business needs? What worked yesterday may not work tomorrow. Hence, it is essential to realign the vision to the new business environment.

Reinforce through leadership behaviour

We all know that behavior changes are driven through a top-down approach. So, the starting point of a change in the mindset of employees should be with leaders imbibing and emulating the changes. Do the leaders have a well-defined action plan? Do they have the necessary support?

Identify performance drivers

- Identify the right performance metrics that would drive the business priorities of tomorrow.
- If companies are looking at reducing risk, then do company's performance metrics drive compliance and reward alignment? Or do companies measure only output, without considering the means?
- If companies are looking to improve productivity, do their performance metrics lead to significantly differentiated rewards for going above and beyond?

Use metrics to measure changes

Identify metrics that best capture the change management and continuously track progress. How much of the people strategy change has led to better results for the business? How often do companies measure the difference? What levers can be modified to achieve company's goals more effectively?

Emergence and attractiveness on REIT

Real estate has been a traditionally preferred investment option for Indians. Over the past few years, commercial realty has emerged as a resilient segment as opposed to the residential sector and substantially drew investors towards the Grade A office space.

According to the Knight Frank Wealth Report 2020, the equity investment of USD 6,221 million was received by the Indian realty sector in 2019 wherein the office segment got 47% of the significant share of total investment.

Facilitating growth avenues to it, REIT might be a great investment option for those evaluating opportunity to invest in. To give a fillip to real estate investment, REIT was formally inaugurated in India in 2019. Structured on the lines of mutual funds, REIT is securities linked to real estate that can be traded on the stock exchange after their listing. However, unlike mutual funds, physical real estate is the underlying asset in REIT.

- While there are several ways to invest in real estate, the investment through REIT ensures plenty of benefits to the investor. A major advantage of REITs is that it allows investment in Grade A commercial realty and thus represents an addition to the investment portfolio. As an AIF, it provides liquidity to the investors, and for unit holders, it is a stable investment option. Moreover, investors can be assured of regular returns.
- It is a transparent investment option with the Securities and Exchange Board of India (SEBI) introducing several guidelines in this regard. Furthermore, SEBI has reduced investment limit from INR 2 lakh to INR 50,000 in the 2019 amendment which enhances the prospects for REITs. In the wake of the pandemic, SEBI recently announced the relaxation in due date for regulatory filings in REIT and infrastructure investment trust (InvIT) for FY20.
- Due to the uncertainty in the present environment, people are sceptical about their future investments. The COVID-19 crisis has paused investment with people being in a 'wait and watch' mode. However, once the situation returns to normalcy, people are likely to explore secured investment options that might lead to REIT gaining the trust of investors. Evaluation of expansion plans and office space requirements post COVID-19 may also pull investors towards REIT.
- REIT provides better rentals as compared to other real estate properties, making REIT buildings a great investment avenue. It strengthens the transparency in the sector ensuring the safety of investment. Hence REIT is expected to attract investors in the post-COVID era.

SWAMIH initiative

To support the sector, the government launched the SWAMIH initiative, under which INR 8,767 crore has been approved for 81 projects, enabling the completion of almost 60,000 homes across India. While reviewing the performance of SWAMIH, the Finance Minister Nirmala Sitharaman underlined the need for speedy efforts to complete construction of projects for which last-mile funding has been sanctioned.

It is suggested that both private and public sector banks, NBFCs and HFCs should see the special window as a stakeholder and increase support for early completion of stressed projects. Finance Minister Nirmala Sitharaman asked the Department of Economic Affairs to closely monitor the performance of SWAMIH to ensure that the capital raised is used for resolving stressed projects on an urgent basis.

The SWAMIH Investment Fund I has progressed from a policy announcement to an operational initiative on the ground, the release said, adding “the fund has so far approved 81 projects with an investment of INR 8,767 crore that will enable the completion of almost 60,000 homes across India.”

These projects are spread across a mix of markets including large cities such as NCR, Mumbai Metropolitan Region (MMR), Bengaluru, Chennai, Pune, and also Tier II locations, including Karnal, Panipat, Lucknow, Surat, Dehradun, Kota, Nagpur, Jaipur, Nashik, Vizag and Chandigarh.

Amongst these projects, investments in 18 projects have been given final clearance and disbursement is at various stages across seven residential projects. Applications from 353 stressed projects are under examination for the provision of assistance.

Additionally, the fund is actively evaluating options to provide relief to about 15,000 home buyers in certain long-stalled projects which are pending before the Supreme Court for resolution. The recent initiative by the fund to reduce the cost of capital to 12% has resulted in an increase in the number of projects that meet the funding criteria laid out under the special window.

Way ahead

As during the period following the global financial crisis of 2008, while some real estate players go beyond just adapting and flourishing, others fade. Individual firms' abilities to weather the storm will depend on how they respond to immediate challenges to the industry - particularly the current declines in short-term cash flow and demand for space as well as the uncertainty surrounding commercial tenants' ability to pay their bills. In the medium to long term, changed behaviours forced upon the industry will have likely altered the way consumers and businesses use and interact with real estate.

The critical question is which of these changes will stick. Throughout, acting quickly and smartly will help determine the fate of players not only in these challenging times but also as the industry emerges from the current crisis and inevitably reinvents itself.

India's improved rank on the ease of doing business and the courage to implement reforms, such as demonetisation, RERA and the Insolvency and Bankruptcy Code, 2016 (IBC) are indeed creditworthy. These are expected to yield fruitful results in the future and help establish Indian real estate as a preferred destination for global investors, occupiers, and homebuyers.

Further, with the increasing focus on domestic manufacturing, as global supply chain see a shift towards India, supported by regulatory support demand for commercial real estate is likely to see a boost in the long run. As a result, the Indian real estate industry is expected to reach USD 1 trillion by 2030.

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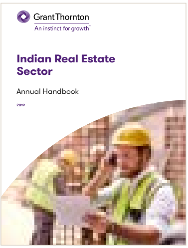

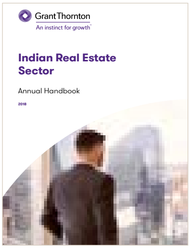

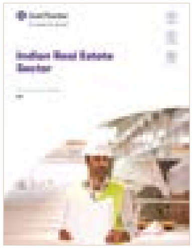

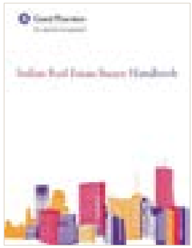

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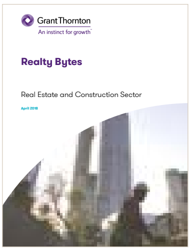

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